MONETARY POLICY STATEMENT

PRESS CONFERENCE

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Good afternoon, the Vice-President and I welcome you to our press conference.

The rebound phase in the recovery of the euro area economy is increasingly advanced. Output is expected to exceed its pre-pandemic level by the end of the year. With more than 70 per cent of European adults fully vaccinated, the economy has largely reopened, allowing consumers to spend more and companies to increase production. While rising immunity to the coronavirus means that the impact of the pandemic is now less severe, the global spread of the Delta variant could yet delay the full reopening of the economy. The current increase in inflation is expected to be largely temporary and underlying price pressures are building up only slowly. The inflation outlook in our new staff projections has been revised slightly upwards, but in the medium term inflation is foreseen to remain well below our two per cent target.

Financing conditions for firms, households and the public sector have remained favourable since our previous quarterly assessment in June. Favourable financing conditions are essential for the economy to continue its recovery and to offset the negative impact of the pandemic on inflation.

Based on a joint assessment of financing conditions and the inflation outlook, the Governing Council judges that favourable financing conditions can be maintained with a moderately lower pace of net asset purchases under the pandemic emergency purchase programme (PEPP) than in the previous two quarters.

We also confirmed our other measures, namely the level of the key ECB interest rates, our forward guidance on their likely future evolution, our purchases under the asset purchase programme (APP), our reinvestment policies and our longer-term refinancing operations, as detailed in the press release published at 13:45 today. We stand ready to adjust all of our instruments, as appropriate, to ensure that inflation stabilises at our two per cent target over the medium term.

I will now outline in more detail how we see the economy and inflation developing, and then talk about our assessment of financial and monetary conditions.

Economic activity

The economy rebounded by 2.2 per cent in the second quarter of the year, which was more than expected. It is on track for strong growth in the third quarter. The recovery builds on the success of the vaccination campaigns in Europe, which have allowed a significant reopening of the economy.

With the lifting of restrictions, the services sector is benefiting from people returning to shops and restaurants and from the rebound in travel and tourism. Manufacturing is performing strongly, even though production continues to be held back by shortages of materials and equipment. The spread of the Delta variant has so far not required lockdown measures to be reimposed. But it could slow the recovery in global trade and the full reopening of the economy.

Consumer spending is increasing, although consumers remain somewhat cautious in the light of the pandemic developments. The labour market is also improving rapidly, which holds out the prospect of higher incomes and greater spending. Unemployment is declining and the number of people in job retention schemes has fallen by about 28 million from the peak last year. The recovery in domestic and global demand is further boosting optimism among firms, which is supporting business investment.

At the same time, there remains some way to go before the damage to the economy caused by the pandemic is overcome. There are still more than two million fewer people employed than before the pandemic, especially among the younger and lower skilled. The number of workers in job retention schemes also remains substantial.

To support the recovery, ambitious, targeted and coordinated fiscal policy should continue to complement monetary policy. In particular, the Next Generation EU programme will help ensure a stronger and uniform recovery across euro area countries. It will also accelerate the green and digital transitions, support structural reforms and lift long-term growth.

We expect the economy to rebound firmly over the medium term. Our new staff projections foresee annual real GDP growth at 5.0 per cent in 2021, 4.6 per cent in 2022 and 2.1 per cent in 2023. Compared with our June staff projections, the outlook has improved for 2021 and is broadly unchanged for 2022 and 2023.

Inflation

Inflation increased to 3.0 per cent in August. We expect inflation to rise further this autumn but to decline next year. This temporary upswing in inflation mainly reflects the strong increase in oil prices since around the middle of last year, the reversal of the temporary VAT reduction in Germany, delayed summer sales in 2020 and cost pressures that stem from temporary shortages of materials and equipment. In the course of 2022 these factors should ease or will fall out of the year-on-year inflation calculation.

Underlying inflation pressures have edged up. As the economy recovers further, and supported by our monetary policy measures, we expect underlying inflation to rise over the medium term. This increase is expected to be only gradual, since it will take time for the economy to return to operating at full capacity, and therefore wages are expected to grow only moderately. Measures of longer-term inflation expectations have continued to increase, but these remain some distance from our two per cent target.

The new staff projections foresee annual inflation at 2.2 per cent in 2021, 1.7 per cent in 2022 and 1.5 per cent in 2023, being revised up compared with the previous projections in June. Inflation excluding food and energy price inflation is projected to average 1.3 per cent in 2021, 1.4 per cent in 2022 and 1.5 per cent in 2023, also being revised up from the June projections.

Risk assessment

We see the risks to the economic outlook as broadly balanced. Economic activity could outperform our expectations if consumers become more confident and save less than currently expected. A faster improvement in the pandemic situation could also lead to a stronger expansion than currently envisaged. If supply bottlenecks last longer and feed through into higher than anticipated wage rises, price pressures could be more persistent. At the same time, the economic outlook could deteriorate if the pandemic worsens, which could delay the further reopening of the economy, or if supply shortages turn out to be more persistent than currently expected and hold back production.

Financial and monetary conditions

The recovery of growth and inflation still depends on favourable financing conditions for all sectors of the economy. Market interest rates have eased over the summer, but reversed recently. Overall, financing conditions for the economy remain favourable.

Bank lending rates for firms and households are at historically low levels. Lending to households is holding up, especially for house purchases. The somewhat slower growth of lending to firms is mainly due to the fact that firms are still well funded, because they borrowed heavily in the first wave of the pandemic. They have high cash holdings and are increasingly retaining earnings, which reduces the need for external funding. For larger firms, issuing bonds is an attractive alternative to bank loans. Solid bank balance sheets continue to ensure that sufficient credit is available.

However, many firms and households have taken on more debt during the pandemic. A deterioration in the economic outlook could threaten their financial health. This, in turn, would worsen the quality of banks' balance sheets. Policy support remains essential to prevent balance sheet strains and tightening financing conditions from reinforcing each other.

Conclusion

Summing up, the euro area economy is clearly rebounding. However, the speed of the recovery continues to depend on the course of the pandemic and progress with vaccinations. The current rise in inflation is expected to be largely temporary and underlying price pressures will build up only gradually. The slight improvement in the medium-term inflation outlook and the current level of financing conditions allow favourable financing conditions to be maintained with a moderately lower pace of net asset purchases under the PEPP. Our policy measures, including our revised forward guidance on the key ECB interest rates, are key to helping the economy shift to a sustained recovery and, ultimately, to bringing inflation to our two per cent target.

We are now ready to take your questions.

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I had two questions. The first was on the pace, on the discussion around reducing asset purchases. Some of your Council members have suggested that they would like to see the programme, the Pandemic Emergency Purchasing Programme (PEPP) coming to an end soon. Would you characterise this, or did you characterise this internally, as a taper, or is it a turning point, or how would you characterise the move? And the second question was, why you feel

confident enough to do this? Your 2023 outlook for inflation is 1.5 per cent, which is some way below your medium-term target. There also seems to be a lot of uncertainty in the global economy around Delta, around slowdown in China. So, why did you think reducing your stimulus was the correct move? Thank you.

Lagarde: Well, thank you so much for your questions. I would preface my response to your first question by a quote, actually, in a way, which is, the lady isn't tapering. Because what we are doing is recalibrating PEPP, which I'll remind you is the Pandemic Emergency Purchase Programme, and we are recalibrating just as we did back in December and back in March. We are doing that on the basis of the framework, which is a joint assessment, so we look at the financing conditions, and we concluded that they remain favourable, and we do that on the basis on the inflation outlook. And as you rightly pointed out, our inflation outlook has been upgraded, and it has been the case for '21, significantly, '22, quite significantly, and to a lesser extent, '23. But across the board, you have an improvement on the inflation numbers for the whole horizon that we look at. We also look at other indicators, and on those accounts as well, there has been a significant improvement of the inflation numbers, both for '22 and '23. So, on the basis of that joint assessment, and because we know that we need to keep favourable financing conditions, this is the commitment that we have and this is what we agreed in December. That hasn't varied. We believe that we can maintain those favourable financing conditions with a moderately lower pace of purchase, and, of course, the choice of words is relevant. It is moderately lower than what we have done in Q2 and Q3. Are we confident enough? Well, you know, the September meeting is conducted in the light of our projections, and what we are seeing is clearly an improvement on many fronts. The output numbers are much higher. The inflation numbers have been upgraded as I've just indicated. The employment numbers have also improved and the unemployment situation is serious, of course, but more benign than was anticipated. So, on the basis of all that, and the success of the vaccination campaign, which we have all along said was critically important to determine the economic recovery, we believe that the euro area economy is rebounding. And that gives us the confidence to take the measure that we have taken, which, as I said, is a recalibration of our Pandemic Emergency Purchase Programme for the next three months.

Thank you for the opportunity, and nice to see you on Webex. President Lagarde, I have two questions. My first question is on financing conditions. For how long will the ECB preserve favourable financing conditions, to support the recovery? Also after the COVID crisis, in a sense, will favourable financing conditions end with the end of the Pandemic Emergency Purchase Programme? And my second question is on PEPP. As the Coronavirus crisis enters a new phase as you have described, with the new Delta variant, but also a better economic outlook and a good pace of vaccinations, can you tell us a bit more how the Governing Council intends to judge and assess the end of the COVID crisis phase, given that PEPP will end when the COVID crisis phase is over? Thank you.

Lagarde: Well, thank you very much, and it's very nice to see you as well. This is a significant improvement from previous press conferences, so we're probably heading in the right direction here. The next step will be to actually see each other with appropriate distance between us. On the commitment for favourable financing conditions, I'll remind you that that was decided at our Governing Council meeting in December, under the auspices of the PEPP. So PEPP is an emergency programme, very specifically designed for the circumstances that we have been facing, that we still face today, but that are currently clearly improving. And this commitment to the favourable financing conditions is one of the two parts of the joint assessment that we conduct to determine our pace of purchase. So, we have a framework that is very clearly designed and that operates in relation to PEPP. The day when PEPP is over will presumably indicate that financing conditions are favourable, and that the economy will have recovered in such a way that the downward impact of the pandemic on our inflation outlook has been resorbed. At that point in time the job is not finished, because we are still targeting our 2 per cent, which is now clear and straightforward, as a result of our strategy review. Symmetric 2 per cent, in the medium term, with a special focus resulting from the lower bound. So, that will continue, and the driver of our work going forward after PEPP will indeed be the mandate that we have to maintain price stability, as measured by our target of 2 per cent inflation. On your second question, which has to do with PEPP in general: What we have done today, with the Governing Council members, unanimously, is to calibrate our pace of purchases in order to continue to deliver on our goal of favourable financing conditions. We have not discussed what comes next, and this is something for which we will prepare in the months to come, and I think there will be more interesting matters that will be debated in December, and of which, clearly, you will be informed in due course.

President Lagarde, some of your colleagues, including Jens Weidmann, have recently emphasised the upside risks to the inflation outlook and that the high inflation could prove more permanent than currently expected. Could you tell us whether this view is widely shared within the Governing Council, and what the discussion was like at this week's meeting? A question on your monetary stimulus. How much notice will you give markets before the PEPP comes to an end?

Lagarde: Well, thank you for the first question, because I'm going to take advantage of that one to say a few words about inflation and how we conducted our discussion on inflation, because it is a case that in many countries in the euro area, people are seeing prices increase and they can feel it. So we have to really go under the skin of inflation before we actually assess whether it is temporary, whether it is going to last. And that leads us to the conclusion of our inflation outlook, which, as you know, is 1.5 at the end of the projection horizon.

So what do we have at the moment? We have essentially three factors that are driving prices up. The first set of factors has to do with the reopening of the economy. I mean, this is the entire dynamic. It went down massively, and prices by the way at the time also went down. The economy reopened and, from a supply point of view, from a demand point of view, of course, there is pressure on prices. You can see that in what we call the base effects, a lot has to do with energy prices, which constitute a large component of these base effects on inflation, And you can see that in the German value-added tax (VAT) impact, which obviously will continue to play out until the end of the year. You see that in the carbon tax that was decided also in Germany. So, those are the base effects, reopening of the economy related factors.

As part of those reopening-of-the-economy factors, I would emphasize the supply bottlenecks effect, and this is something that the corporates and the companies are telling us, or telling you. There are bottleneck effects and not just in the semiconductor business, but in all sorts of sectors. These sectors are more or less affected, depending on how much they rely on either raw materials, or equipment, and where they get their supply from. And this is impacting the durable and the non-durable goods. Now, how strong will that effect be, how long will it last, is something that obviously remains to be seen. We have put that particular item - if you remember the monetary policy statement that I read for you - we have put that in the inflation analysis, where we say that if those supply bottlenecks last longer than expected, then it will increase prices and will have an upside pressure. But we're not certain, because typically what we have seen in previous situations of that nature is that when you have a bottleneck in your supply, you try to find alternatives to that supply. And as a result of that the supply bottleneck impact on inflation is reduced and eventually goes away. In the same vein, if it's bottleneck inflation that applies without too much effect on the demand front, it's not necessarily conducive to second-round effects on wages in particular. So, that's the second one [set of inflationary factors], which is a subset of the reopening-of-the-economy consequences.

The third one, which is quite interesting as well, especially when you disaggregate it, is the inflation that is related to services, because we have seen a reopening of the economy on the service front, in the most recent months. And when you analyse where the inflation is in that segment of services, you see that most of it is actually coming from what was subject to social distancing and what obviously has been reactivated most recently.

So, those are the three key drivers of inflation at the moment. But, as you can see, many of them are of a temporary nature, and will last for a period of time, and will then either fall out of the period of reference, or will fade out over the course of time.

One component that we are addressing, monitoring, and checking very attentively is the second-round effect, is the impact that price increases will have on wage negotiations, and that is what could actually fuel a more persistent and durable price increase and inflation going forward. On that wages front we are not seeing much by way of significant increase. We will be very attentive to the autumn negotiations that are typically taking place in some countries. But at this point in time, we don't expect these wage increases and these wage negotiations to be very strong and we see probably a gradual and moderate [wage] increase as a result of that. So, that's what I really wanted to try to explain to you in response to your question about inflation.

Now, concerning PEPP, you know, that's a discussion that we will address comprehensively at our December meeting. As the term of PEPP approaches, we need to obviously discuss the terms and conditions of how that term occurs, and you will hear me again on this matter, certainly at our December meeting.

President Lagarde, I have two questions. One is, if you read through analysts' notes, some are a lot less optimistic about 2022 in terms of economic growth, so what makes you so optimistic for 2022? And the, second question is whether you have ever addressed the risk of a stagflationary environment for the eurozone, given that inflation, as you also say, could be more persistent, or price pressure could be more persistent? Thank you very much.

Lagarde: Well, on your first question about how confident we are, I observed that, since the beginning of the year, we have regularly upgraded our forecast. If anything, we might have been on the too pessimistic side to begin with. And what I look at more - more so than analysts' notes, which I'm attentive to, of course - is the projections that are produced by staff, how they compare with projections that are produced by other international institutions, such as the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), and other similar institutions. We believe that the economy is going to continue to benefit from further unwinding of containment measures during the second half of ’21, into ’22 as well. We also make the assumption that bottlenecks will be circumvented by the economic operators in the first half of ’22. We believe that we will be back to the pre-pandemic, 2019 level at the end of this year, which is two quarters earlier than we had initially anticipated. And while we still have a lot of slack, both in production and in unemployment, we are also seeing that slack being resolved and reduced more rapidly than we had anticipated. So, that gives us good reasons to believe that ’22 is going to be another good, solid year.

We have not upgraded our forecast for ’22., We still are at plus 4.6 per cent[1], in our forecast, and our risk assessment, as I mentioned earlier, is broadly balanced. Clearly, if the pandemic is resolved faster because of even further vaccination coverage and if the booster is adopted by many, that is going to be an add-on. If more savings are being used by consumers, that will also support consumption, which has been one of the big drivers of the recovery so far. There’s still that, you know, chunk of saving that was accumulated over the pandemic period, which has not been tapped into, which might be tapped into, so that’s for the upside side of our broadly balanced risk assessment.

On the downside, clearly, we could have a massive fourth wave, or other variants coming to the fore, for which vaccinations don’t work. I mean, you have all these possibilities as well, and the supply bottlenecks, which, as I said, we anticipate, will be circumvented in the first half of ’22, but which could last longer, and which would have a side effect on inflation, putting pressure up, and which would weigh on the Gross Domestic Product (GDP) on the other hand.

I think you had a second question which had to do with stagflation. You know, our primary mandate is price stability, but we are also keen to see an economy that recovers fully. And for that to happen, of course, jobs have to be created, and the furlough schemes that are in place and that retain employees in their positions but not in actual employment, need to be pursued. And those two million people - still more than in 2019 - that are unemployed, have to also return to employment. So, if that is the ultimate result of this recovery, then I don’t think that we will be heading towards stagflation.

So, I have two questions. The first one is that your Chief Economist, Philip Lane, said recently that the amount of assets you purchase after PEPP finishes will depend on the amount of debt issued by governments. Do you agree? And my second question is about the link between the ending of asset purchases at the ECB, and the first interest rate rise. At the moment, there’s a close link in your guidance between asset purchases ending, and soon after that, interest rates rising. Do you think that there should be potentially more of a gap, or more flexibility on that? Thank you very much.

Lagarde: Well, thank you very much, for this question, it gives me a chance to actually repeat yet again, because I think it’s an important consequence of our last July meeting, the three criteria that are applicable for our forward guidance on interest rates. And that forward guidance, as you know, has been modified and/or clarified to a great extent by including three criteria. One is, we need to see inflation outlook at target, that is at 2 per cent, well ahead of the end of our horizon. First criteria. Second, we need to see it through, also to the end of the projection horizon, and, third, we need to have sufficient elements and indication of progress in the underlying inflation criteria, at the time when we make the decision. So, you have these three criteria, and you have the other element of our forward guidance, that remain intact, and which actually play a role in signalling to markets what will be the sequence of events from asset purchases to interest rate hiking.

I think we are pretty far away from that. And it also gives me a chance to remind all of us that PEPP is a very specific programme, intended for the pandemic. It has an emergency character to it, and when that PEPP comes to its term, then clearly, we have all the other instruments available. And in terms of purchases, we clearly have the Asset Purchase Programme, the APP, which we have on a standing basis ever since October 2019, and that clearly is intended to be continued, and will be debated, as I said, at our December meeting. So it’s entirely premature to evoke it, and it has not been discussed on the occasion of this meeting.

Now, when we determine our pace of purchases, we are attentive to the entire universe of bonds. We are not paying special attention to the fiscal commitment of one country or the other, or the bond issuance of one country or the other. So, we look at the entire universe of bonds that is available, will be available, and is being announced. And that’s how we determine where our purchase pace is going to be applied. But we do so, as I said, based on two things, under our joint assessment. One is the favourable financing conditions, the second is the inflation outlook. Thank you.

You said that the need of a PEPP recalibration was unanimous. I would like to know if the pace that was decided was also unanimous. And the second question is, after the operation later this month, there will be only one final chance for banks to borrow money at a targeted longer-term refinancing operation (TLTRO) in December. I was wondering if the ECB has taken any decision on this regard, and if there will be any long-term funding operations for the banks, any more operations, I mean?

Lagarde: On your question about the decision that we made today, as I said, it was a unanimous decision, in all respects. So, the pace of calibration was agreed, the moderately lower determination was agreed unanimously, it was all unanimous. So, I’m sorry for those who like to set the doves against the hawks, sorry. For this time, there’s not much that you can actually draw from dissenting votes, because we all agreed.

TLTROs, you’re right, there will be one more operation in December, and we will clearly have to discuss what comes next on the basis of the situation at the time. I think that that will be part of the overall re-examination that we conduct at the time of our December meeting.

This will be as usual data-dependent, and what we have seen, based on the bank lending survey, based on the discussions that we’ve had with representatives of the banking sector is that TLTROs operations, certainly the earlier ones, more so than the most recent one, have been critically important to help them and encourage them to provide lending to the economy, which they have consistently done over the course of the last two years. Thank you.

With the winding down of PEPP, a degree of flexibility the ECB has introduced into state bond buying, will that go away? This is particularly important for Greek bonds, as they are not yet investment grade. Does the Governing Council think that it should be pre-emptive, clearing out this uncertainty, this lack of flexibility in respect to Greek bonds, and avert unnecessary speculation? Thank you very much.

Lagarde: Well, I think it is really too early and unnecessary at this stage to discuss, you know, longer-term issues related to PEPP, and the term of PEPP. As I said, it will be discussed at length, we will enter into a process of a technical review, in-depth analysis of the situation. And certainly the situation of Greece will be taken into account, and addressed specifically, but I think it's premature for the moment to do so.

The first question is about inflation, which was 3 per cent according to a flash estimate. Do you think the balance of risk for inflation has shifted and is now to the upside? , And how was this reflected by the discussion of the Governing Council? And the second question is about the fact that many of your colleagues, including Mr de Guindos, standing next to you, have signed letters. They're urging the Commission to implement fully and swiftly the Basel III rules for banks. Your name was conspicuous by its absence. Do you support their call, including its timing, crucially, because the Governor of the Bank of France said the timing of the letter was unfortunate, so I'm keen to hear your view on that? Thank you.

Lagarde: Well, do not worry, there is nothing conspicuous about my name not being on the letter, because all those matters are addressed by my colleague and friend, Andrea Enria, who is as you know is the head of the Single Supervisory Mechanism (SSM). He's the one who has full authority and, and much deeper understanding of those issues than I do. But I'm not uninterested in Basel III, and I've had my share of Basel III discussions when I was Finance Minister, and when I was then Managing Director of the IMF. So I do follow these things, and I do believe that there should be proper compliance and respect of the timetable in relation to these Basel III issues. But I will turn to my colleague and friend, the Vice-President, who is also very, very close to that. I will address your first issue by quoting, because we discussed this sentence, - to make sure that we were all unanimously in agreement with that - in relation to inflation. We say very clearly in the risk assessment paragraph: 'If supply bottlenecks last longer, and feed through into higher than anticipated wage rises, price pressures could be more persistent.' I don't think we could be more clear than this sentence is.

De Guindos: Ah, well, with respect to the letter, you know, I have nothing, I have not much to add to what you have said, President. The letter was signed by the Head of the European Banking Authority (EBA), by Andrea Enria, and by myself, as the person responsible for financial stability in the ECB. You know, the message is crystal clear: We want full implementation of Basel III. And I think that you know that's the position of the three of us, of the three institutions. And as I have said before, we believe that this full implementation, this rapid implementation will bring a lot of benefits for the banks and for the economy.

President Lagarde, so when you discuss PEPP in December, and the economy will have returned, the economic outlook will have returned to pre-crisis levels, will that then be a sufficient condition for you to declare the crisis phase over? And then, what should we all expect from November, what are you gonna do during your October meeting?

Lagarde: Well, we will all get together around the table, and we will assess the situation, because not a single monetary policy Governing Council meeting goes without us looking at the situation, assessing the financing conditions, and being attentive to the effectiveness of our measures. So, don't worry, I'm sure we'll have plenty to discuss and to review. But, as I said, the important meeting at which we will discuss the terms and conditions of the PEPP, when it comes to its term, will be in December. You know, at our December meeting, there will be two things. One is, it could well be that our forecast is actually delivered upon, so we have caught up with the two years and we are back to the pre-pandemic, 2019 situation, which doesn't mean that we are back to , the growth trend that we had in 2019, we are still far away from that, in our forecast. And we will have new projections, which will give us a projection not for 2023, but for 2024. So, we will have more substance to chew on in order to discuss the terms and conditions of the PEPP term. Thank you.

I'd like to ask two questions to President Lagarde. The first, do you fear any kind of contagion from the US in the bond market, and in that sense, will the Fed's decisions on tapering influence your actions? And the second question is about fiscal policies. In your opinion, how should fiscal policies be in the coming months, more focused on fiscal consolidation than in the past, or still on supporting economies in an uncertain phase? Thank you.

Lagarde: Well, thank you for your questions. I would preface my answer to your second question with acknowledging that, during this crisis, fiscal policy, monetary policy, have been reinforcing each other, unlike in previous situations. The fiscal support that has been extended to all the euro area economies has been critically important, and it has been increased relative to our initial projections. If we look back at, you know, what we forecasted in December last year, and what has so far been the fiscal impulse and the fiscal stimulus given to the economies, there is a significant difference. It has actually, it was more than doubled. So, fiscal policies have been very important, and have supported monetary policy, as I think we have also complemented, so they really worked hand in hand. Our assessment is that the fiscal support has to be continued, and as I said on previous occasions recently, it is no longer the massive necessary support across the board to all actors of the economy, as was the case in the beginning of the crisis. It needs to be more targeted, needs to be more surgical, it needs to be associated with the structural reforms that are so much called for and necessary in some countries. And this is really the point about the recovery and resilience plans, and the funding that is made available to that effect. That is under way, it will continue to be applied in the quarters and years to come, in consideration for delivery under the plans We hope that it will facilitate the recovery, and that it will reduce the risk of divergence between countries, and the risk of fragmentation in the recovery process. So, a time will come, of course, when this fiscal support will have to be gradually withdrawn, and where the rules that the Europeans will give to themselves, once they have renegotiated the growth and stability pact, or whatever they call these, the terms under which they operate, that time will come. But it is still premature and we believe that a lot of the good results that we are seeing for the economy and good reasons for the recovery have to do also with monetary policy, of course, and we should take full credit for that, and fiscal policies. And this has to be continued, because we are much advanced in the process, recovery has progressed, is rebounding, but we're not there yet. We're not out of the woods. We are not on the green, as the golf players will appreciate. We're getting closer, but we're not there yet.

Two questions, if I may. The first was whether the Governing Council has discussed the possible impacts that a change of government in Germany might have for the ECB's monetary policy. And the second was, 5-year-5-yearforward inflation break-evens are at their highest since 2017, up more than 50 basis points since the beginning of the year, and way more than

the shift in inflation break-evens in the US. How much does such a shift affect your perception of the ECB policy path going forward?

Lagarde: Thank you so much. The answer to your first question is simple and straightforward: the answer is no. We had plenty to discuss and we did not have any discussion on any change of government in any of the euro area countries, I can assure you. The 5-year-5-year, 1.75 per cent number, which as you noted is 50 basis points higher than what it was, which is at the highest in a long time, is something that we pay attention to, but it's not the only one. We look at all the forecasts, the market survey, the analyst survey, the forecasters numbers. We look at all of that, and we also look at what other institutions are producing, because we don't want to be data slaves, we are data-dependent in our policy determination, but we want to have a look at a whole range of such data, to make sure that it's not only directionally in the same vein, but that it's also consistent., And we look, we do look at the 5-year-5-year, but it's not the only one, I can assure you.

My first question is in regard to the self-imposed limits that the ECB has on its monetary policy and its asset purchase programmes, especially obviously the Asset Purchase Programme (APP). It's true that the ECB sovereign bondholding is converging towards the capital key, but if the APP is to be increased, which seems likely once the PEPP expires, the ECB holdings will be getting closer to the issuer limit, to the 33 per cent limit on the outstanding debt of individual sovereign countries. Do you deem it necessary to increase the issuer limit in order to make ECB Quantitative Easing (QE) programmes sustainable within ECB rules? And the second question is whether you had any update on the impact the pandemic is having on the weaker, or highly indebted southern European countries that are more reliant on ECB support, such as Italy and Spain? Thank you.

Lagarde: Well, on your first question, thank you very much, but those are issues that will be debated in December. So, it's not a matter for me to debate the exact limits in any shape or form, or the capital keys. All I know is that we have a mandate, we have an objective, we have a target which is to be reached, and we will have to use all the instruments that we have available. And we will decide on what terms and conditions will apply at our next meeting, and we will adjust accordingly if necessary. On your other point, you know, what I observe is that those nations that were most affected by the pandemic, which are largely countries from the south of Europe, are the ones that are benefiting from the highest volumes of loans and grants, under the NextGenerationEU. And we very much hope that, with the plans that they have submitted, which have been approved, with the loans and the grants that are already being disbursed and will continue to be so, if there is delivery in consideration, then they will be in a much better position to respond to the damage that was suffered. What we can observe though is that, in relation to tourism, in relation to hospitality services, there has been a significant increase in activity and probably more so than was expected earlier in our projections. Thank you very much.

1. The GDP projections for 2022 and 2023 are broadly unchanged. When rounding to the first decimal, in June the projection for 2022 was 4.7%, in September is 4.6%

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